
Senate Budget and Fiscal Review—Denise Moreno Ducheny, Chair
SUBCOMMITTEE NO. 1 on Education



Subcommittee No. 1
Chair, Jack Scott
Member, Bob Margett
Member, Gloria Romero

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(Please note time change)

Support Budgets:

University of California (6440)
California State University (6610)
California Community Colleges (6870)

I.	Overview of Governor's Budget Proposal (Informational Item)	Page 2
II.	Legislative Analyst Proposed Alternative	Page 3
III.	Mid-Year Changes to Community College's Budget	Page 3
IV.	Impact of Proposed Reductions at UC, CSU, and Community Colleges	Page 5
V.	UC and CSU Professional School Differential Fees (Informational Item)	Page 9
VI.	Community Colleges Chancellor's Office State Operations	Page 12
VII.	Executive Compensation at UC and CSU (Informational Item)	Page 12
VIII.	Proposed Consent	Page 16

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Governor's 2009-09 Higher Education Budget Proposal
(Dollars in Millions)

	Change <i>(From 2007-08 to Governor's 2008-09 Proposed Budget)</i>				
	2007-08 Revised	2008-09 "Workload Budget" ^a	2008-09 Governor's Budget	Change from Current Year	Percent Change
University of California					
General Fund	\$3,260.7	\$3,494.1	\$3,162.2	-\$98.5	-3.0%
Fee revenue ^b	2,151.5	2,331.3	2,331.3	179.8	8.4%
<i>Subtotals</i>	<i>(\$5,412.2)</i>	<i>(\$5,825.4)</i>	<i>(\$5,493.5)</i>	<i>(\$81.3)</i>	<i>(1.5%)</i>
All other funds	\$12,656.9	\$13,210.1	\$13,210.1	\$553.2	4.4%
Totals	\$18,069.1	\$19,035.5	\$18,703.6	\$634.5	3.5%
California State University					
General Fund	\$2,970.7	\$3,186.0	\$2,873.1	-\$97.6	-3.3%
Fee revenue ^b	1,376.9	1,521.1	1,521.1	144.2	10.5%
<i>Subtotals</i>	<i>(\$4,347.6)</i>	<i>(\$4,707.1)</i>	<i>(\$4,394.2)</i>	<i>(\$46.6)</i>	<i>(1.2%)</i>
All other funds	\$2,598.7	\$2,550.5	\$2,550.5	-\$48.2	-1.9%
Totals	\$6,946.3	\$7,257.6	\$6,944.7	-\$1.6	-0.02%
California Community Colleges					
General Fund ^c	\$4,168.3	\$4,519.4	\$4,034.9	\$-133.4	-3.2%
Prop. Tax	2,051.7	2,196.2	2,196.2	144.5	7.0%
Fee revenue	281.4	289.9	284.4	3.0	1.1%
<i>Subtotals</i>	<i>(\$6,501.4)</i>	<i>(\$7,005.5)</i>	<i>(\$6,515.5)</i>	<i>(\$14.1)</i>	<i>(0.2%)</i>
Other funds ^d	\$269.4	\$257.5	\$257.5	-\$11.9	-4.4%
Totals	\$6,770.8	\$7,263.0	\$6,773.0	\$2.2	0.03%
Grand Totals	\$31,786.2	\$33,556.1	\$32,421.3	\$635.1	2.0%

^a Governor's Workload Budget is defined on Page 3 and is for display purposes only.

^b Assumes fee increases of 7.4 percent for UC and ten percent for CSU.

^c Excludes teacher retirement funds and bond payments and includes State operations for the CCC Chancellor's Office.

^d Excludes other funds maintained in local budgets.

I. Overview of Governor's Budget Proposal (Informational Item). Similar to its approach in other areas of the budget, the Governor's higher education proposal generally reflects 10 percent reductions to estimated General Fund "workload" funding levels. For the University of California (UC) and California State University (CSU), these "workload" levels are consistent with fully-funding the Governor's *Compacts*. For the California Community Colleges (CCC), the "workload" budget includes funding associated with various statutory and customary formulas, including full funding for cost-of-living adjustments (COLA) and funding for enrollment growth of about twice the statutory guideline.

Depending on one's perspective, the proposed cuts to the higher education segments' General Fund support (including Proposition 98) could range anywhere from \$141 million to \$1.1 billion. The \$141 million figure represents the actual dollar decline in base budget funding to the higher education budgets from the current year (2007-08) to 2008-09. The \$1.1 billion figure represents a level of reductions that are based off the Governor's "workload" budget estimates and thus represent an increase from an amount the university systems would have received had, for example, the *compacts* been fully funded, and the Governor's estimates for growth and COLA at the community colleges also been fully funded.

II. Legislative Analyst Proposed Alternative. The Legislative Analyst's Office (LAO) proposes an alternative to the Governor's budget. Rather than starting with a workload level and applying unallocated cuts, the LAO recommends specific augmentations and reductions to the segments' current-year budgets. The primary augmentations in LAO's alternative budget for the segments include General Fund increases for enrollment growth at all three segments averaging about 1.7 percent and funding for nondiscretionary cost increases at UC and CSU averaging about 1.5 percent. The primary reductions include 10 percent cuts in UC and CSU's executive administration budgets, and a reduction in the CCC's economic development program. The LAO recommends against funding faculty or staff salary increases at any of the segments.

Overall, the LAO's alternative budget would provide about \$135 million more General Fund support to the three segments than the Governor's budget proposal. (The LAO would fund this higher level of General Fund support with increased tax revenues that would be generated from other recommendations in its alternative budget.) Further, the LAO alternative budget includes fee increases of 10 percent at UC and CSU, and a \$6 per unit increase at CCC. These fee increases would collectively generate about \$350 million in new revenue for the segments.

Staff recommends that the LAO's alternative budget recommendation be "Held Open" pending the May Revision.

III. Mid-Year Changes to the Community Colleges Budget. The Governor's initial budget proposal was released on January 10, 2008. Since that time, at least two changes have occurred, further underscoring the fluidity of the state's fiscal projections, as well as California's fiscal condition.

A. Actions of Legislature in Special Session (Informational Item). As part of his January proposal, the Governor called for the Legislature to make a series of reductions to

current-year spending. Neither the operations of the UC nor CSU were impacted; however, the Welfare Policy Research Program (which is housed at UC) was reduced on a one-time basis by \$1.5 million.

Proposition 98 funding for K-14 educational programs was reduced in the current year by approximately \$507 million, \$31.1 million of which is attributable to community colleges (the Governor's Budget had recommended a \$40 million reduction to community college apportionments.) Of this \$31.1 million, \$17.8 million in savings was achieved due to the ability of the Chancellor's Office to delay distributing funds for several categorical programs until the 2008-09 fiscal year; the remainder are either savings that had accrued from prior years or are funds that will likely remain unspent by June 30th.

B. Property Tax Revenue Decline in Current Year. For the community colleges, revenues from local property taxes comprise almost one-third of their financial support and are counted as part of the CCC's Proposition 98 funding. Each year, the Annual Budget Act estimates how much revenue will be derived from property taxes to benefit both the community colleges and K-12 education. If actual property tax revenues exceed the amount budgeted, the state reduces the amount of General Fund provided to K-14 education by a like amount (thus, preventing K-14 education from keeping the excess.) When revenues fall short, K-12 school districts are automatically compensated for the loss. However, community colleges do not enjoy a similar protection. When these revenues fail to materialize, colleges are essentially faced with current-year unallocated reductions.

In the current year, actual property tax collections have fallen far below the amount estimated for the 2007-08 budget. According to community college districts, the impact on community colleges could be upwards of \$90 million. The statewide impact (including the impact on K-12 education) remains unclear.

While the community colleges have experienced property tax shortfalls in the past, this situation is unique in two regards. First, prior property tax shortfalls have not been nearly this large (ranging from approximately \$15 to \$25 million). Staff notes that, Assembly Bill 2277 (Eng), which is currently making its way through the legislative process, would appropriate \$80 million to the community colleges from the General Fund to "backfill" the current year property tax loss.

Second, due to reporting errors in the data provided by several counties, the plunge in property tax revenues was not readily apparent to the colleges until after they had made fiscal and academic planning decisions for the Spring term. Thus, the timing of the discovery of the shortfall has substantially limited the range of options colleges have to adjust to the unexpected revenue loss.

Moving forward, staff recommends that the committee work closely with the Department of Finance, the Legislative Analyst, and the Community Colleges Chancellor's Office to construct property tax estimates for the 2008-09 budget that are more accurate, rather than build upon the now suspect assumptions used in the current year. Doing so will help ensure that a similar shortfall situation does not occur for a second year.

IV. Impact of Proposed Reductions at UC, CSU, and Community Colleges. Given that the Governor's Budget proposes that both the UC and CSU reductions be primarily "unallocated" in nature, staff has requested that representatives from the UC and CSU outline how their institutions intend to absorb the budget reductions proposed by the Governor.

However, staff notes that there are primarily four operational areas where UC and CSU have the requisite flexibility to make fiscal changes: (1) employee salaries and wages; (2) student services; (3) enrollments; and (4) student fees. Further, staff notes, even if the budgets of the UC, CSU, and CCC's were to remain "flat" from year-to-year, and the level of educational and student services held constant, there are still a number of mandatory costs, such as the annualized cost of negotiated salary increases; health insurance; maintenance of new space; and energy/utility costs, which are slated to increase and thus would call for additional dollars. Following is a summary of several key decisions that the Legislature and/or the higher education systems will be faced with as we move forward in this budget process.

A. Proposed Fee Increases. While the Governor's Budget does not explicitly increase UC and CSU student fees (this authority is left to the UC Board of Regents and the CSU Board of Trustees) it also does not provide General Fund revenues in lieu of a fee increase. Further, it goes so far as to assume that the UC and CSU will increase the amount of revenue derived from student fees in an amount equivalent to a 7.4 and ten percent increase, respectively, for the majority of the students. Additional fee increases are in store for students in professional degree programs (as discussed later in this agenda). Combined, these fee increases will produce revenues of approximately \$125.8 million dollars for the UC and \$109.8 million for the CSU. The institutions intend to return approximately 33% or \$78 million to financial aid for their students. The net result is approximately \$158 million in new revenue to the UC and CSU systems.

Fee levels for the community college students are determined in statute. The Governor does not presently propose an increase to the current \$20 per unit amount.

The LAO Alternative Budget recommends that both the UC and CSU increase fees by ten percent. Based on the LAO's analysis of the financial need of the student populations, they also advocate for a smaller portion of the revenue being diverted to financial aid. The Analyst believes that the fee revenue will provide sufficient resources to avoid unallocated budget cuts and allow for the UC and CSU to continue meeting their obligations.

Both the UC Board of Regents and the CSU Board of Trustees are slated to take action on proposed fee increases at their respective meetings in May. Staff notes that, for the Legislature to mitigate the proposed fee increases it would require an appropriation of General Fund resources in lieu of a portion of the fee revenue.

Further, the LAO alternative budget recommends that the Legislature should increase fees at the community colleges by \$6 per unit, bringing the total fee level back to the 2006 level of \$26 per unit. Under the LAO's Alternative Budget, this approximately \$80 million in revenue could then be used to offset the Governor's proposed categorical program reductions for the community colleges and increase enrollment growth above the Governor's proposed level.

Resident Undergraduate Fees ^a

	<u>CSU</u>			<u>UC</u>		
		<u>Change</u>			<u>Change</u>	
		<u>Amount</u>	<u>Percentage</u>		<u>Amount</u>	<u>Percentage</u>
1997-98	\$1,584			\$4,212		
1998-99	1,506	-\$78	-4.9%	4,037	-\$175	-4.2%
1999-00	1,428	-78	-5.2%	3,909	-128	-3.2%
2000-01	1,428	0	0.0%	3,964	55	1.4%
2001-02	1,428	0	0.0%	3,859	-105	-2.6%
2002-03	1,428	0	0.0%	3,859	0	0.0%
2002-03	1,573	145	10.2%	4,017	158	4.1%
(mid-year increase)						
2003-04	2,572	999	63.5%	5,530	1,513	37.7%
2004-05	2,916	344	13.4%	6,312	782	14.1%
2005-06	3,164	248	8.5%	6,802	490	7.8%
2006-07	3,199	35	1.1%	6,852	50	0.7%
2007-08	3,521	252	7.9%	7,517	665	9.7%
2008-09 (proposed)	3,797	346	10.0%	8,007	490	6.5%

^a Fees in this chart include both mandatory systemwide fees as well as campus-based fees, which vary by campus. The fee increases discussed in this agenda are limited to increases proposed by the university systems for mandatory systemwide fees. As such, the percent increases may not match the increases proposed by the university systems.

B. Impact on Enrollments. Both university systems are likely to be "overenrolled" in the current year. While these overenrolled students may be paying fees, the system is not receiving General Fund support to educate the students. The UC indicates they are overenrolled by approximately 4,200 full-time equivalent students (FTES); the number of overenrolled students at the CSU is close to 10,000 FTES. At the community colleges, current enrollment numbers indicate that they are fully-enrolled and will likely be over-enrolled by the time the FTES numbers are finalized. As a result, the CCC's expect to fully utilize the funding provided for growth (two percent) in the current-year budget and could potentially be serving as many as 8,700 FTES without state funding.

UC and CSU. In constructing his budget proposal the Governor's first step is to provide UC and CSU with funding for 2.5 percent enrollment growth; he then imposes unallocated cuts that are far larger than the growth augmentations. Given that the Governor's proposed reductions are scored as "unallocated" and each system intends to treat student enrollments differently, moving forward it remains unclear exactly how enrollment levels will change from the current year to 2008-09.

UC indicates it intends to grow at an unspecified rate and "take all eligible students" at the level of funding provided in the Governor's Budget, but that it expects to be paid by the state for the overenrolled students in arrears. However, given UC's academic calendar, should it alter its stated course of action, entering freshman have already been admitted. Thus, the students for whom the promise of a UC education would be broken would be community college transfer students.

CSU intends to employ a different approach and will *reduce* enrollments. Being overenrolled by 10,000 FTES in the current year, CSU indicates a refusal to grow enrollments in the current budget climate. Instead, CSU plans to reduce enrollments, in particular, cutting its overenrolled student population by 7,000 FTES from 10,000 to 3,000 FTES.

Community Colleges. The Governor's Budget construction process for the community colleges worked the same way as that for the UC and CSU. Funding (\$172 million) was first provided for three percent enrollment growth; it was then reduced by \$111 million, thus leaving funding equivalent to one percent available for growth.

Community colleges assert that, given: (1) their enrollment experiences in the current year; (2) budget cuts and fee increases predicted at the UC and CSU; and (3) a lagging economy, enrollment demand will likely increase substantially in the coming year. Like all university systems, the CCC's operate on economies of scale and have some flexibility, on the margin, to accommodate increasing numbers of students. However, unlike its UC and CSU counterparts, CCCs are open access institutions with minimal admission requirements. As a result, reductions in enrollments occur primarily when colleges limit course offerings as well as access to student services, thus making attending a community college both more difficult and less appealing.

Staff recommends that issues related to budget cuts and expected levels of student enrollments be "held open" pending the May Revision.

C. Community College Across-the-Board Reductions. Consistent with the Governor's approach in other areas of the budget, the Administration employs an across-the-board reduction to both the community colleges' General Apportionments as well as each of its 23 categorical programs. The chart below illustrates the reductions proposed by the Administration.

Figure 3

**Major Community College Programs
Funded by Proposition 98^a**

(Dollars in Millions)

	Revised 2007-08	Proposed 2008-09	Change	
			Amount	Percent
Apportionments				
General Fund	\$3,346.9	\$3,300.4	-\$46.5	-1.4%
Local property tax revenue	2,051.7	2,196.2	144.5	7.0
Subtotals	(\$5,398.6)	(\$5,496.6)	(\$98.0)	(1.8%)
Categorical Programs				
Basic skills improvement	\$33.1	\$29.5	-\$3.6	-10.9%
Matriculation	101.8	98.0	-3.8	-3.7
Career technical education (CTE)	20.0	17.8	-2.2	-10.9
Nursing	22.1	19.7	-2.4	-10.9
Extended Opportunity Programs and Services	122.3	117.8	-4.5	-3.7
Disabled students	115.0	110.8	-4.2	-3.7
Apprenticeships	15.2	14.2	-1.0	-6.5
Services for CalWORKs ^b recipients	43.6	38.8	-4.7	-10.9
Part-time faculty compensation	50.8	45.3	-5.5	-10.9
Part-time faculty office hours	7.2	6.4	-0.8	-10.9
Part-time faculty health insurance	1.0	0.9	-0.1	-10.9
Physical plant and instructional support	27.3	24.4	-3.0	-10.9
Economic development program	46.8	41.7	-5.1	-10.9
Telecommunications and technology services	26.2	23.3	-2.9	-10.9
Financial aid/outreach	51.6	45.0	-6.6	-12.8
Child care funds for students	6.8	6.4	-0.4	-6.5
Foster Parent Training Program	5.3	4.7	-0.6	-10.9
Fund for Student Success	6.2	5.5	-0.7	-10.9
Other programs	8.2	7.8	-0.5	-5.6
Subtotals, Categorical Programs	(\$710.5)	(\$658.0)	(\$52.5)	(-7.4%)
Other Appropriations				
Lease revenue bond payments	\$58.3	\$68.1	\$9.8	16.8%
Totals	\$6,167.5	\$6,222.7	\$55.2	0.9%
^a Excludes available funding appropriated in prior fiscal years, including monies appropriated for CTE outside of the Annual Budget Act.				
^b California Work Opportunity and Responsibility to Kids.				

LAO Alternative Proposal. Consistent with its Alternative Budget, the LAO recommends that the committee focus dollars on those programs that most directly support the college's "core" mission of educating students. To meet this end, the LAO recommends that the Legislature target \$11 million of reductions on the community colleges' Economic and Workforce Development Programs, which would bring funding for this program back to the levels provided in 2005-06. For all other categorical programs, the LAO recommends providing the same level of funding as in the current year.

Consistent with prior recommendations, the LAO proposes consolidating several categorical programs into a series of two *block grants* (as outlined below) in order to provide local districts with greater flexibility and reduce the costs associated with administering the programs. In response, the CCC chancellor's office notes that there appears to be no indication from local districts that additional flexibility is needed in relationship to categorical programs.

Figure 9	
LAO's Proposed Consolidation of Funding for Categorical Programs	
<i>(General Fund, In Millions)</i>	
2007-08 Amounts	
Student Success Block Grant	
Financial aid/outreach	\$51.6
Extended opportunity programs and services	122.3
Disabled students	115.0
Fund for Student Success	6.2
Matriculation	101.8
Basic skills initiative	33.1
Total	\$430.0
Faculty Support Block Grant	
Faculty and staff outreach/training	\$1.7
Part-time faculty compensation	50.8
Part-time faculty office hours	7.2
Part-time faculty health insurance	1.0
Total	\$60.7
Grand Total	\$490.7

Staff recommends this issue be "held open" pending the May Revision.

V. UC and CSU Professional School Differential Fees (Informational Item). The UC first began charging differential fees for professional-level students in Law and Medicine in 1990, as a result of the state budget situation at the time, and under the assumption that students in the programs will eventually have greater earning power and should thus bear a greater burden of the educational costs. At that time, the surcharge (\$376) was assessed in addition to the standard complement of mandatory systemwide and campus based fees. UC's

practice of assessing a surcharge on students in professional degree programs continues. In 1994-95 the fee was increased (to between \$2,000 and \$2,400) and expanded to include professional degree programs in Dentistry, Veterinary Medicine, and Business. Since then the fee has steadily increased and been further expanded to cover professional degree programs in Optometry, Pharmacy, Nursing, and Theater/film and Television.

Beginning in 2004-05 and continuing through 2008-09, the surcharge has increased monumentally (anywhere from 50 to 100 percent) and the scope of programs impacted has been further widened to include Public Health, Public Policy, and International Relations. This increase was primarily in response to significant budget cuts made mid-year in 2002-03 which reduced state General Fund support for UC's professional degree programs by 25 percent.

For 2008-09, it is anticipated that a law student at UC Berkeley will be paying over \$31,563 annually in tuition alone (\$10,321 in combined mandatory systemwide and campus based fees, coupled with \$21,242 in a Berkeley specific Law school surcharge.). Tuition for Medical students will be slightly over \$25,000 annually. The increases in the professional school surcharges are expected to reap \$16.5 million (\$11.1 million after one-third of the new revenues are returned to financial aid). This trajectory of professional school fee increases is expected to continue (as the chart on the following page indicates).

A recent policy change by the UC Regents is contributing substantially to the increasing costs. The Regents are now allowing individual campuses to increase professional school fees at levels different from those of other campuses in the UC system. For example, while law students at Berkeley may pay \$31,563 annually, their peers at UC Davis will be paying \$28,500. For students earning an MBA, the disparity is even greater. Students at UC Los Angeles will pay \$32,370 for their education annually, while students at UC Davis pay \$27,125. Prior to this policy, all UC campuses charged the same fee amount.

CSU, which has never charged a differential fee for professional programs, is considering following suit for students enrolled in MBA programs at all CSU campuses. Scheduled for further discussion at its Fall 2008 Trustees meeting, the CSU expects to implement a *new* \$5,000 per student per year fee on students in state-supported MBA programs. Under the present proposal, the fee would be implemented for Fall 2009.

Proposed Changes in Fee Levels for Professional School Students (California Residents)

	Proposed Increase	Proposed Professional Degree Fee			Estimated Total Fees		
	2008-09	2008-09	2009-10	2010-11	2008-09	2009-10	2010-11
Law							
Berkeley	\$ 3,472	\$ 21,242	\$ 25,283	\$ 29,979	\$ 30,931	\$ 35,571	\$ 40,906
Davis	\$ 2,121	\$ 18,439	\$ 20,836	\$ 23,545	\$ 28,270	\$ 31,244	\$ 34,566
Los Angeles	\$ 3,305	\$ 21,075	\$ 24,408	\$ 28,213	\$ 31,113	\$ 35,157	\$ 39,727
Business							
Berkeley	\$ 3,470	\$ 21,630	\$ 25,668	\$ 30,361	\$ 30,913	\$ 35,549	\$ 40,882
Davis	\$ 1,528	\$ 16,804	\$ 18,484	\$ 20,332	\$ 26,257	\$ 28,515	\$ 30,975
Irvine	\$ 1,142	\$ 17,456	\$ 18,678	\$ 19,985	\$ 28,040	\$ 30,030	\$ 32,169
Los Angeles	\$ 2,762	\$ 22,049	\$ 25,161	\$ 28,678	\$ 31,860	\$ 35,683	\$ 39,965
Riverside	\$ 1,069	\$ 16,345	\$ 17,489	\$ 18,714	\$ 25,798	\$ 27,544	\$ 29,412
San Diego	\$ 1,528	\$ 16,804	\$ 18,484	\$ 20,332	\$ 26,047	\$ 28,402	\$ 30,981
Dentistry							
Los Angeles	\$ 1,185	\$ 18,087	\$ 19,353	\$ 20,708	\$ 28,103	\$ 30,080	\$ 32,200
San Francisco	\$ 1,185	\$ 18,087	\$ 19,353	\$ 20,708	\$ 27,848	\$ 29,880	\$ 32,063
Medicine							
Berkeley (Jt. MD/PhD)	\$ 984	\$ 14,984	\$ 16,033	\$ 17,155	\$ 24,704	\$ 26,352	\$ 28,113
Davis	\$ 984	\$ 14,984	\$ 16,033	\$ 17,155	\$ 25,383	\$ 27,010	\$ 28,747
Irvine	\$ 984	\$ 14,984	\$ 16,033	\$ 17,155	\$ 26,020	\$ 27,838	\$ 29,791
Los Angeles	\$ 984	\$ 14,984	\$ 16,033	\$ 17,155	\$ 24,183	\$ 25,943	\$ 27,830
Riverside	\$ 984	\$ 14,984	\$ 16,033	\$ 17,155	\$ 23,947	\$ 24,996	\$ 26,118
San Diego	\$ 984	\$ 14,984	\$ 16,033	\$ 17,155	\$ 24,664	\$ 26,388	\$ 28,241
San Francisco	\$ 984	\$ 14,984	\$ 16,033	\$ 17,155	\$ 25,187	\$ 27,002	\$ 28,953
Pharmacy							
San Diego	\$ 1,760	\$ 13,635	\$ 15,395	\$ 17,155	\$ 22,878	\$ 25,313	\$ 27,804
San Francisco	\$ 1,760	\$ 13,635	\$ 15,395	\$ 17,155	\$ 23,341	\$ 25,860	\$ 28,441
Veterinary Medicine							
Davis	\$ 813	\$ 12,459	\$ 13,331	\$ 14,264	\$ 23,876	\$ 25,326	\$ 26,872
Nursing							
Irvine	\$ -		\$ 3,943	\$ 4,219		\$ 16,264	\$ 17,439
Los Angeles	\$ 241	\$ 3,685	\$ 3,943	\$ 4,219	\$ 12,447	\$ 13,422	\$ 14,457
San Francisco	\$ 241	\$ 3,685	\$ 3,943	\$ 4,219	\$ 13,364	\$ 14,380	\$ 15,474
Optometry							
Berkeley	\$ 715	\$ 10,925	\$ 11,690	\$ 12,508	\$ 20,208	\$ 21,572	\$ 23,029
Theater, Film, & TV							
Los Angeles	\$ 446	\$ 6,821	\$ 7,298	\$ 7,809	\$ 15,583	\$ 16,771	\$ 18,047
Public Health							
Berkeley	\$ 300	\$ 4,584	\$ 4,905	\$ 5,248	\$ 14,784	\$ 15,768	\$ 16,819
Davis	\$ 300	\$ 4,584	\$ 4,905	\$ 5,248	\$ 15,202	\$ 16,171	\$ 17,203
Irvine	\$ 300	\$ 4,584	\$ 4,905	\$ 5,248	\$ 16,072	\$ 17,226	\$ 18,468
Los Angeles	\$ 300	\$ 4,584	\$ 4,905	\$ 5,248	\$ 14,263	\$ 15,360	\$ 16,356
Public Policy							
Berkeley	\$ 300	\$ 4,584	\$ 4,905	\$ 5,248	\$ 14,784	\$ 15,768	\$ 16,819
Irvine	\$ 300	\$ 4,584	\$ 4,905	\$ 5,248	\$ 16,072	\$ 17,226	\$ 18,468
Los Angeles	\$ 300	\$ 4,584	\$ 4,905	\$ 5,248	\$ 14,264	\$ 15,360	\$ 16,536
International Relations & Pacific Studies							
San Diego	\$ 300	\$ 4,584	\$ 4,905	\$ 5,248	\$ 14,745	\$ 15,805	\$ 16,947

VI. Community College Chancellor's Office State Operations. The purpose of the California Community College's Chancellor's office is to oversee the statewide CCC system. Key functions of the Chancellor's office include: (1) administering statewide programs; (2) providing technical assistance to districts; and (3) issuing annual reports on the fiscal condition and educational effectiveness of districts. In 2007–08, the Chancellor's office is budgeted \$20.5 million (all fund sources) for about 150 FTE staff, including \$9.9 million in General Fund (non–Proposition 98) support.

Consistent with his approach for the budget in general, the Governor begins by constructing a "workload budget" for the Chancellor's Office. Increases include \$174,000 for baseline adjustments (employee compensation increases and other costs), and \$200,000 for two new staff. One of these positions would be assigned to the nursing program at the Chancellor's Office, and the other would help administer the CCC's career technical education program. The administration asserts that these new staff positions are necessary given the significant expansion of these programs in the past few years.

As part of his across-the-board, budget–balancing reductions, the Governor then proposes a 10 percent unallocated reduction of \$1 million to the Chancellor's Office General Fund workload budget of \$10.3 million. Combined, these workload increases and budget–balancing cuts would provide \$9.3 million General Fund to the Chancellor's Office in 2008–09, a net reduction of \$660,000 (or 6.6 percent) compared with the current year.

LAO Recommendation. The LAO believes that the Chancellor's Office performs a critical oversight function of the community colleges with a limited number of staff. The Chancellor's Office has been subject to various base reductions since 2002–03, and is currently operating with 30 percent fewer funded positions than in 2001–02. As a result, the LAO is concerned that the proposed \$1 million (10 percent) cut to the Chancellor's Office workload budget would leave the office with insufficient resources to perform its responsibilities. Given current staffing needs at the Chancellor's Office, the LAO instead recommends a smaller reduction of \$200,000 to reflect modest administrative savings resulting from its separate recommendation to implement categorical reform (as discussed earlier).

Staff recommends that this issue be "held open" pending the May Revision and an update of the General Fund condition.

VII. Executive Compensation at UC and CSU (Informational Item).

A. Bureau of State Audits. In November 2007 and May 2006, the State Auditor released audit reports which examined CSU and UC compensation practices, respectively, and made specific findings and recommendations to improve those practices. As of February 2008, the State Auditor identifies three *areas of concern* that remain outstanding at the CSU: (1) how CSU defines "total compensation"; (2) policies surrounding "dual employment"; and (3) the group of employees that should be including in CSU's reporting to the Trustees. For the UC, the 2008 report did not identify any specific areas of concern; however, one of the Auditor's prior findings pertained to UC's granting of "exceptions to policy."

Staff has invited State Auditor Elaine Howle to present the Subcommittee with a report on the current status of the CSU's and UC's efforts to implement the recommendations from the 2007 and 2006 audit reports, respectively.

1. CSU Pending Audit Issues.

- a. Policy Changes.* In its response to the audit report, the CSU states that it does not intend to make changes to existing *executive* compensation policies which define "total compensation" and address "dual employment" unless and until those policy changes are applied equitably to *faculty*. Further, CSU indicates that if no agreement is reached on the definition of "total compensation", the Chancellor will report to the Board of Trustees every five years on total compensation. Staff notes that any definitional and policy changes applying to faculty members would be subject to the collective bargaining process.

Staff recommends that the Subcommittee request the Auditor and the CSU provide further comment on this issue, and that the CSU explicitly explain the necessity of establishing identical policies for faculty and staff.

- b. Effective Monitoring and Oversight.* In conducting its audit, the State Auditor examined a representative sample of 76 "highly paid" CSU employees. The Auditor's examination extended beyond the traditional administrative "executive" to include the 6 highest paid faculty from the sampled campuses. The Auditor recommended that to "provide effective oversight..., the CSU needs accurate, detailed and timely compensation data." While the CSU indicates that it supports "in concept" the Auditor's recommendation, CSU and the State Auditor do not appear to agree on the type of monitoring that is warranted. The Auditor recommends a centralized system that captures compensation data by type and funding source. CSU is proposing to monitor compensation by having: (1) the Board of Trustees review the executive compensation transactions for a select group of 29 individuals, (2) the Chancellor's Office conduct a review of all payments and changes to vice president-level compensation, and (3) the Chancellor submit an annual report to the Board of Trustees on the *general* nature of compensation and the changes to such compensation from all sources.

Staff recommends that the Subcommittee request the Auditor and the CSU provide further comment on this issue.

- 2. Prior UC Audit Issue.* The Subcommittee has previously expressed concern that the UC's regular granting of exceptions to policy makes the exception(s) the de facto policy. Since the Legislature first heard this issue, UC has indicated that as "policies are updated and revised, the numbers of exceptions granted would drop significantly." Further, the UC indicated that "exceptions to compensation policy will become just that, exceptional actions taken when only absolutely necessary."

Staff recommends that the Subcommittee request that the Auditor and the UC provide further comment on this issue.

B. University of California Compensation Issues. In late 2005, a series of media reports brought to light questionable compensation practices impacting predominately executives at the UC. In February 2006, the Senate Education Committee and Senate Budget Subcommittee on Education held two joint hearings to examine UC's compensation practices and policies. In March 2007, these committees reconvened for an additional hearing on these matters. The overall focus of these hearings was to ensure transparency and accountability in UC's compensation practices. In addition, reporting language was adopted in both the 2006-07 and 2007-08 Budget Acts requiring the UC to annually report to the Legislature on its "Compensation Policy and Practices." As a result of these hearings, the related budget actions, the aforementioned State Auditor's Report, and other UC-initiated audits and management reviews, the past two-plus years have seen UC initiate substantive reforms to improve transparency and accountability in compensation matters.

In compliance with reporting language contained in the Budget Act, the UC provided its second annual report to the Legislature focusing on senior leadership compensation (those whose cash compensation exceeds \$205,000). The report details UC's ongoing work to develop policies that are clear, consistent, transparent, easily understood, and provide guidance on when and how exceptions may occur, resulting in new and revised draft policies and a proposed governance model for senior management compensation that will be discussed and acted upon by the Regents in Spring 2008. Following Regental action, the UC reports indicates that a comprehensive communication and training effort will be undertaken to ensure that the new and revised policies, as well as the expanded monitoring and reporting processes, are implemented across the University.

Staff notes that the UC is to be commended for the depth and breadth of the work it has undertaken since early 2006 to reform policies in this arena. Staff also notes that the 2008 report to the Legislature provides every indication that the UC is continuing to make additional improvements to its compensation policies. However, the depth of the challenge to achieve systemic and systemwide reform is illustrated by *two recent incidents at the UC*.

1. *Consistent Disclosure of all Compensation Elements.* The UC has adopted numerous reforms to ensure standard definitions of compensation and consistent public disclosure of all compensation elements. However, staff notes that UC has been reluctant to include the monetary value of its "standard" benefits such as its defined benefit retirement plan as well as health, vision and dental benefits. This issue recently came to light when the UC announced the hiring of a new president and its actions did not appear to meet the intent of these policies. The Regents' item delineated all elements of compensation and provided cost estimates for each item. The press release, however, did not contain that same complete set of items. Rather, while the press release accurately stated that certain items were excluded (mainly retirement benefits) the net effect, as subsequently reported by the media, was the widely quoted "total compensation" figure of \$828,000, which was derived specifically *from* the press release itself. However, if one includes the monetary value

of retirement contributions, the *total* compensation figure, which could be determined only by reviewing the Regents' agenda item, is closer to \$938,888.

2. *UC Berkeley Hiring Practices.* In June 2007, a point in time shortly after the three legislative hearings identified earlier in this agenda, and after the release of the State Auditor's Report and other UC-initiated audits and management reviews, the UC Berkeley campus made a questionable decision to re-hire the campus police chief who had just retired after 34 years of service to the UC with a \$2 million lump-sum retirement payout. The campus asserts that all UC policies were followed and all retirement pay received by the police chief was appropriate. The campus also states that the sole exception to policy, which was approved under UC procedures, was the carry forward of sixty-one weeks of unused sick leave.

Staff recommends the Subcommittee request the UC provide further information about the above two incidents.

The present focus of the compensation reforms at UC are centered on "senior leadership" compensation which is defined as those in top management positions whose cash compensation exceeds \$205,000. By policy, these matters are required to come before the Regents for approval. Given the income threshold, staff recommends that UC provide the subcommittee with information regarding how they intend to ensure compliance with UC policy for employees compensated at \$204,999 and below.

VIII. Proposed Consent

Staff recommends that the following items be adopted with the accompanying changes:

- 1) Item 6440-001-0001 Support, University of California. *Add Provisional Language, Per April Finance Letter (Issue 350), Related to Energy Conservation Projects.*
- 2) Item 6440-001-0007 Support, University of California. Breast Cancer Research. *Amend item to extend period of availability of funds to June 30, 2011 (technical amendment). \$12,776,000*
- 3) Item 6440-001-0046 Support, University of California. Institute of Transportation Studies. *Reduce item by \$5 million to conform to action of Senate Budget Subcommittee #4, State Administration. ~~\$5,980,000~~ \$980,000*
- 4) Item 6440-001-0234 Support, University of California. Cigarette and Tobacco Products Surtax Fund, Research Account. \$14,553,000
- 5) Item 6440-001-0308 Support, University of California. Earthquake Risk Reduction Fund. \$1,500,000
- 6) Item 6440-001-0321 Support, University of California. Oil Spill Response Trust Fund. \$1,300,000
- 7) Item 6440-001-0890 Support, University of California. Federal GEAR UP Program. \$3,500,000
- 8) Item 6440-001-0945 Support, University of California. California Breast Cancer Research. \$778,000
- 9) Item 6440-001-3054 Support, University of California. Analysis of Health Care-Related Legislation. \$1,908,000
- 10) Item 6440-002-0001 Support, University of California. Ongoing deferral of expenditures from June 30th to July 1st. (\$55,000,000)
- 11) Item 6440-003-0001 Support, University of California. Debt Service. \$175,078,000
- 12) Item 6440-004-0001 Support, University of California UC Merced. \$20,000,000
- 13) Item 6440-005-0001 Support, University of California. Institutes for Science and Innovation. \$4,750,000
- 14) Item 6440-011-0042 Transfer by Controller from State Hwy. Acct., Earthquake Risk Reduction Fund of 1996 (\$1,000,000)
- 15) Item 6440-490 Reappropriation, University of California.
- 16) Item 6610-002-0001 Support, California State University. Legislative, Executive, and Judicial Fellows Programs and Center for California Studies. \$2,991,000.

- 17) Item 6610-003-0001 Support, California State University. Debt Service. \$56,999,000
- 18) Item 6610-402 California State University. Fee Revenue Deposits into Local Trust Funds, General Fund Offset
- 19) Item 6610-490 Reappropriation, California State University.
- 20) Item 6870-001-0909. Support, California Community Colleges. Fund for Instructional Improvement. \$12,000
- 21) Item 6870-001-0925. Support, California Community Colleges. California Business Resource and Assistance Innovation Network Fund. \$12,000
- 22) Item 6870-001-0890. Support, California Community Colleges. Logistics Program, Payable from Federal Funds. \$251,000
- 23) Item 6870-001-0001. Local Assistance, California Community Colleges. *Increase Reimbursements by \$400,000, Per April Finance Letter, for Emergency Planning and Preparation (Issue 702)*
- 24) Item 6870-001-0001. Local Assistance, California Community Colleges. *Increase Reimbursements by \$175,000, Per April Finance Letter, for Mental Health Program Administration (Issue 703). Amend request to include Provisional Language (per attached).*
- 25) Item 6870-101-0001. Local Assistance, California Community Colleges. *Transfer \$587,000 of Apprenticeship Program Funding, Per April Finance Letter, from the Community Colleges to the California Department of Education (Issue 701)*
- 26) Item 6870-101-0001. Trailer Bill Language. *Clarify Statutory Intent, Per April Finance Letter, Related to Education Code 76300 and recent Commission on State Mandates ruling.*
- 27) Item 6870-101-0909. Local Assistance, California Community Colleges. Fund for Instructional Improvement. \$302,000
- 28) Item 6870-101-0925. Local Assistance, California Community Colleges. California Business Resources and Assistance Innovation Network Fund. \$15,000
- 29) Item 6870-103-0001. Local Assistance, California Community Colleges. Lease Revenue Bond Payments. \$68,122,000
- 30) Item 6870-107-0001. Local Assistance, California Community Colleges. Local District Financial Management and Oversight. *Amend Item to reject Governor's Proposed Reduction. ~~\$508,000~~ \$570,000*
- 31) Item 6870-111-0001. Local Assistance, California Community Colleges. CalWORKS Services, Foster Parent Training, Vocational Education, and Telecommunications/Technology. \$0
- 32) Item 6870-295-0001. Local Assistance, California Community Colleges. Mandate Reimbursement. \$4,004,000

Provision X. On or before June 1, 2009, the Chancellor of the California Community Colleges shall provide the Legislature and Department of Finance with a report on the state of mental health services at the community colleges. The Chancellor's Office shall request, but not require, data from community colleges for inclusion in the report. The report shall include all of the following for each community college : (1) current staffing levels of campus mental health programs; (2) the extent to which colleges utilize community providers to complement or supplement the provision of mental health services to students; (3) the current level of student access to crisis, short-term, and mid-term counseling services; (4) funding sources and levels in support of mental health services; and (5) other potential sources of funding (such as grants) that could be accessed to enhance student mental health services at the community colleges. It is the intent of the Legislature to require subsequent reports to monitor the Chancellor's Office's efforts at improving the delivery of mental health services at the community colleges.